RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Sept. 1, 1993 **LETTER 1129**

Aug. 20 DJIA 3615.48 ; PTI 3925; A-D Ratio -3.19
Aug. 27 DJIA 3640.53; PTI 3934; A-D Ratio -2.88
Dow Yield: 2.80%; Dow Price/Earnings: 44.0
Dow 200-day MA: 3420; Dow 30-day MA: 3571
Dow Times Book Value: 2.79; PTI 89-day MA: 3839
Percentage of Undervalued Blue-chips: 7%
Low Risk Buy Index: +61

MODERN MEDICINE: This Letter may be abbreviated in length, I don't know yet. And it may be a bit goofy, so please bear with me, because I have a good excuse. On Monday, August 16, around 10PM, I had an attack of angina (pains in the heart). I took a Nitrostat pill, and this almost always relieves the pain since Nitro expands the veins and arteries, allowing more blood to flow through. Then about 11PM more angina, this time pretty powerful. Two more Nitros but the pain continued. No relief this time.

When you have heart pains and Nitro doesn't work -- that's the danger sign. I turned to my good wife, and said, "Faye, that's it, we better head for Scripps Hospital emergency room." She said, "Should I call an ambulance?" I said, "No, I think we can make it there faster on our own." Faye got me to the emergency room in less than 20 minutes (running all the red lights). When you get to an emergency room and you say those eight magic words, "I think I am having a heart attack," these good people drop everything and swing into action. Electrocardiogram, enzyme test, Nitro, morphine, and I forget what else, but believe me, you get the full treatment.

A day later I took an angiogram test, which entails shooting a dye into your vascular system via a tube running from your groin to your heart. The dye shows the doc what's happening. It turned out that one important vein leading to my heart was almost completely blocked off. I later was told that I had suffered very mild heart damage which showed in an elevation of an enzyme, but it was not severe enough to show up on any change in an electrocardiogram.

Next, modern science enters the picture. The doctors decided to open up the vein with an angioplasty balloon and keep it open with a "stent". A stent? A stent is a tiny spiral spring. A mini deflated balloon is inserted inside the stent, and the stent is sent up through the groin to the clogged part of the vein. The balloon and stent push through the stoppage. The balloon is then inflated, expanding the stent (the stent is made out of a rare metal called tantalum). The stent then acts as a tubular "cage" which holds open the vein, allowing the blood to run freely through the vein and back to the heart.

The stent is made by Medtronic (MDT, NYSE), and the process was "experimental." Amazingly, the next day, while watching the news on CNBC, I saw that the FDA had approved MDT's "balloon catheter process." Overnight I was no longer a guinea pig, MDT's process had been officially approved.

Next problem. The body tends to reject foreign objects, of which the stent is one. The idea is to prevent dangerous blood clots from forming around the stent. So I now have to go on a very strict program of blood thinner, meaning that I have to check in with the doctor daily (to have blood drawn and analyzed) for a while. Then I take the required amount of a drug called Cuomadin (this one made by DuPont), and the Cuomadin acts as a blood thinner and prevents clotting.

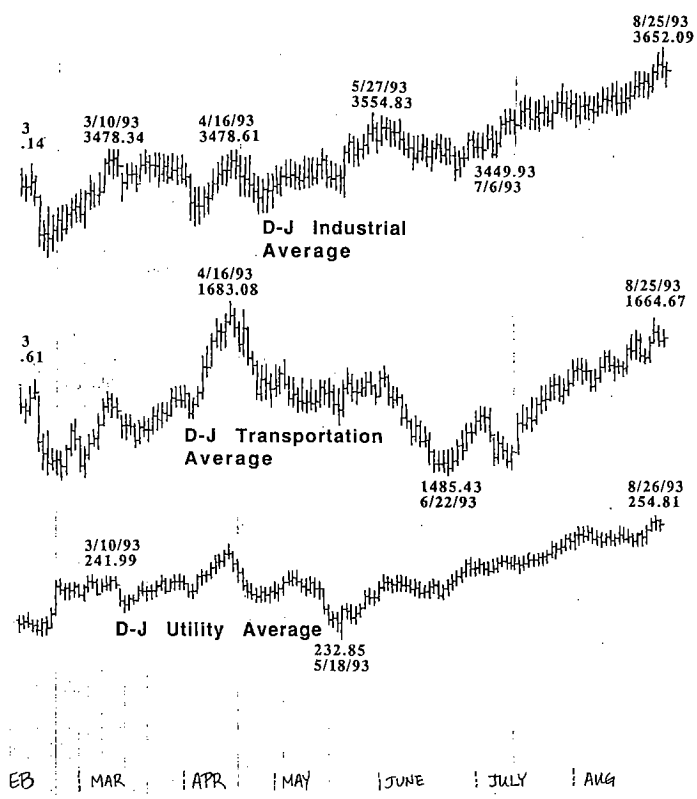
In the course of about three months instead of blood clots forming, a protective film forms around the stent. It's a very strict therapy, and the "thinness" level of my blood has to be exactly right. This also means I have to avoid bruises, cuts, accidents, etc.

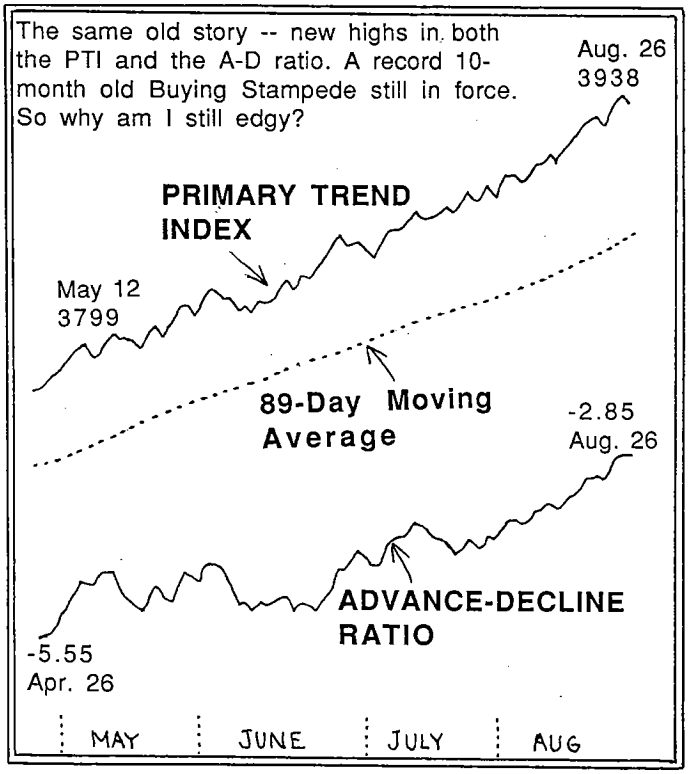
As I write this over a week later I'm a bit weak, but I feel fine, and I can tell you that the stent-balloon angioplasty process is one heck of a lot easier than having bypass surgery. As older readers know, I had a quintuple bypass eight years ago, and that's a far more invasive process, and it HURTS (I'm in no pain now, and obviously I can't feel the stent).

One more item -- I was supposed to speak last week at the big ISI San Francisco seminar. My apologies to those who expected me there. I just couldn't make it.

Sorry to go into all this, but I thought this discussion would interest many subscribers -- it really is an amazing process. At any rate, dear readers, Russell is alive and kicking today thanks to great doctors and the advances of modern medicine. Actually, almost everything physicians know about hearts and heart therapy has been learned since the mid-1950s. The new techniques of today represent huge advances in heart care, and literally hundreds of medical and biotech companies are working on even newer and more advanced heart therapies.

Now, about the stock market. The market's been marching higher almost daily with almost every index and average confirming (not all together, but an awful lot of new index highs). There really is no sense poking a lot of holes in this market action -- it's been good. Daily new highs (in stocks) have not been





terribly impressive, and there's been a lot of churning, but Wall Street never gives us perfection, and it isn't giving it to us now.

The worst single thing you can say about this market is that it's overvalued, terrifically overvalued. Furthermore, everybody knows it's overvalued, but despite that, billions of dollars are pouring into the market via the mutual funds, the institutions and the great American public (equity mutual funds are now loaded with stocks to the tune of $600 billion).

The second worst thing you can say about this market is that it hasn't been subject to a correction in so long that probably the majority of participants don't even know what a correction looks like. Market history tells us that every movement, minor, secondary or primary, is ultimately corrected. And as I said, it's been a LONG time since we've seen a primary correction (19 years to be exact) or even a secondary correction. They'll come. The laws of market action have not been nullified, not yet they haven't.

One of the current major bullish arguments is the so-called "contrary opinion argument." It goes like this: "There's too much pessimism and skepticism around. Everybody is worried that this market is overvalued and too high. And when everybody is worried, the market is safe. Fear markets are safe markets."

I've dealt with contrary opinion for years. I knew and corresponded with the late Humphrey Neill, the man who wrote the original book on contrary opinion. Contrary opinion is fine and valid, but the opinions expressed in the paragraph above aren't really contrary opinion. They aren't because these opinions are too widely known and too widely accepted. When everybody tells you the market is safe "because everybody else is worried," forget it. That's not valid contrary opinion.

There are, however, a few widely accepted views on the current market and economic situation. (1) As long as interest rates are low, this stock market is safe. (2) Inflation is dead. (3) Even if inflation did start up again, the Fed would be very reluctant to raise rates, mainly because the economy remains so sluggish. (4) The oceans of liquidity being created by the Fed will keep the stock market afloat no matter what.

Here are a few of my own views. When the next bear market finally arrives, it will NOT be signaled by rising interest rates. That's the place where everyone is looking. No, it will be some other phenomenon that will trigger the next bear market, but I'll promise you that it will be a phenomenon that is overlooked today.

A majority of stocks are rising today. But a good many are meandering sideways, and still others are heading down. Any perusal of a chart book will attest to the above. In other words, this is a very selective stock market.

Over the years I've learned (the hard way) that I don't have to be in the market at all times. And I sure don't have to be in an overvalued stock market. Overvalued markets may go up, they may go up for weeks or even months, but history tells me that they are basically dangerous markets. I don't like dangerous markets. And I'm over the feeling (call it greed) that I've got to be generating profits at all times.

My PTI continues to climb to new highs (see page 2 chart): And the new PTI highs are confirmed by new highs in the advance-decline ratio. The great "Buying Stampede" continues -- I've never in all my years of watching markets seen a Buying Stampede last this long. It's amazing. You can almost "feel" those billions pouring into stocks at the fantastic rate of around $10 billion a month.

The same goes for bonds. As fast as the US Treasury grinds out the paper, it's gobbled up by frenzied buyers who see only "lower interest rates ahead." Predictions are for the yield on the long bond to drop below 6% to maybe even 5%. But I'll bet that the majority of long bonds are not being bought to be held for 30 years, they are being bought to hold for higher prices and profits. Yeah, that bothers me too. The bonds continuing to go up-and-up thesis is too easy, too pat.

There are two interesting concepts that I've been mulling over. The Asian nations are making extraordinary economic progress, and they constitute a major new and rising source of SUPPLY. More and more goods are being thrown on the world markets -- that's basically deflationary.

But at the same time almost every nation is running deficits, and they are covering those deficits with massive new issues of paper money. Last week the *New York Times* (Aug. 23) reported that even oil-rich Saudi Arabia (would you believe?) was running huge deficits. All this outpouring of paper money, paper covering God knows how many billions of new deficits, that's inflationary. In the meantime, the currency markets are erratic, they're volatile, they're unstable. Trading currencies is now the biggest game (a trillion dollars a day) on the face of the globe -- there's nothing even close.

The US is no exception. It's issuing oceans of paper, and that paper (bills, notes, bonds) is being eagerly bought. But what if the dollar starts to sag, to sink, to cave in? What if the viability of the dollar comes into question (ah, that could never occur, could it?)? What would happen to that $4.4 trillion in US government debt?

Today there are around 4,000 mutual funds, and new ones are being created every day. Derivatives (options, futures) have become a major factor. It's a world swimming in paper. The yields on all the major stock averages are below 3% and we're seeing record low returns on money instruments. Hey, it's a global jungle out there, and it's a jungle populated -- by a yield-hungry public.

Here's an interesting thought. Clinton and the Dems believe that the "rich" will keep spending and buying, even if they're hit with the new sky-high retroactive taxes. But at the same time the Dems saw fit to kill the "luxury tax." Why'd they do that? Because when the luxury tax came into being, the rich stopped buying yachts and expensive items. And that was OK except that when the rich stopped buying those expensive items the factories that produced those expensive items laid off their workers, and some of the factories even closed down.

So when Clinton's new high taxes go into effect, we'll find out if the rich will continue to buy as Clinton predicts. My guess -- the "rich" will cut back on buying those big items. Higher income taxes will prove to be a disaster.

Ah well, you can't say it isn't interesting. Wall Street is looking for 4000 on the Dow, Clinton is looking for eight million new jobs, the bond market is looking for "below 6% yields on the long bond," and the Republicans are looking for a Congressional sweep in '94.

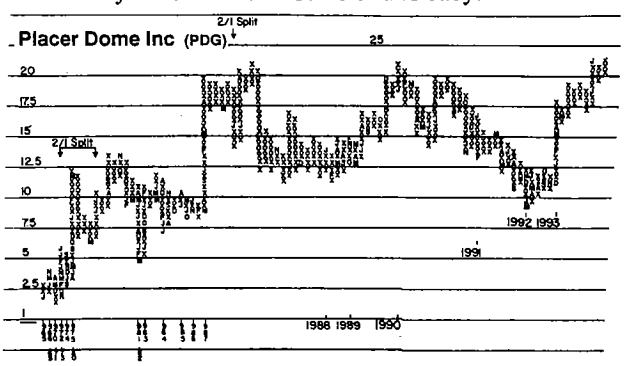
What is Richard Russell looking for? I'm looking for a slow, erratic, tortured but definite long-term rise in the value of real money (that's another name for gold). I'm looking for a BIG probably ugly surprise in the stock market before this year is out. And I'm looking for ways of NOT losing money and purchasing power over the next few years.

The fact is that there's a worldwide inflation in financials (stocks and bonds) going on now. People are growing very used to rising markets and declining rates. Yet I keep thinking there's a surprise out there, something neither Wall Street nor CNBC nor the *Wall Street Journal* is tuned in to. Meanwhile, my PTI continues to climb higher and higher. And that's something I don't fight.

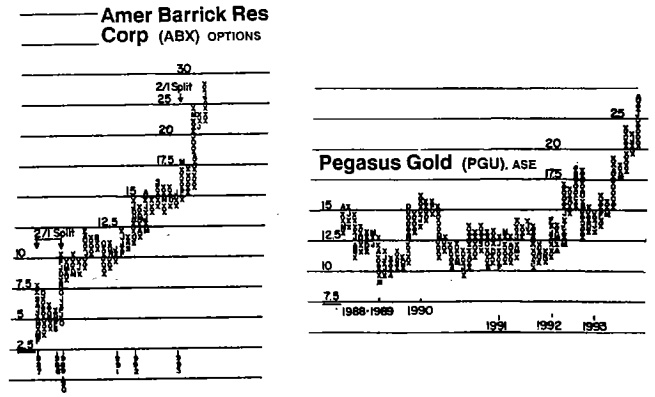
INVESTMENT POSITION: A lot of advisory publications present long lists of "stocks to buy," and very frankly I usually find myself asking, "I wonder what this guy (or gal) is really doing with his own money." I know that fund managers are notoriously conservative with their own bucks, many of them actually avoiding stocks altogether (the usual response is that "having no position allows me to be more objective"). So be it, to each his own, but if a guy is as bullish as all get-out but doesn't own a share of stock it does make me wonder.

With the market this high and no decent yields in sight in either stocks or bonds, at this point I'm pretty much "just watching the action" -- with the exception of the gold shares. In the gold section of this Letter I mention my top gold candidates, and I own all of these at lower prices. However, last week I did add another chunk of Placer Dome (PDG) to my portfolio, a stock which really acts well and has the fundamentals to back it up.

I'm including here a P&F chart of Placer Dome (courtesy of my old friends at *Market Charts, Inc.*, 10 Hanover Sq., NYC 10005). This chart goes all the way back to 1965, and to me everything from 1987 to the present looks like a huge accumulation area. My opinion -- everyone should own some of this baby.



I'm also showing charts of American Barrick and one of Pegasus Gold. You don't have to be a chart-expert to see what's happening to these two. They should continue to be leaders in the gold bull market.



But remember what I said -- the gold bull (like any other bull) will try to separate you from your shares. Don't let him do it. In a bull market, the amateurs get taken out during the corrections -- the pros, on the other hand, add to their positions during corrections. To try to trade the corrections -- some few are successful, but most end up losing their positions and waiting for "the next downer."

NOTES & QUOTES: It's now generally conceded that the M-2 money supply figures don't tell the real story. For while the M-1 figures are currently rising at double digit rates, the broader M-2 has been sluggish. So much so that Fed Chief Greenspan has decided not to worry about it -- instead, the Fed states that he will be watching real interest rates. What's been happening is this -- while the Fed has pushed short rates down to new lows, the public has moved out of the money market funds (these are counted in M-1). The public then takes the money and moves into equity mutual funds or stocks (neither of these are counted in M-2). On top of that, there are the Eurodollars (dollars in Europe). No one is sure how many of these there are floating around the world, but the estimate I most often see is $5 trillion (the dollar is now the universal black market currency). Thus, the US and the world is sloshing in liquidity, even though the broader M-2 and M-3 money supply figures don't show it.

* *

As readers know, I watch the currencies very carefully (we chart 'em all daily here). My opinion -- the dollar looks very toppy, I think it's going down against the European currencies. The rumor on the yen is that an US/Japanese deal has their respective central banks pushing down the yen in return for trade concessions for the US.

* *

Now listen to this from the *International Herald Tribune:* "Faced with slow growth throughout the industrialized world, central banks are discovering that supposedly iron laws of money that served them in the long fight against inflation no longer work so well. Old-fashioned judgment in steering economies towards clear inflation and growth targets is replacing the monetarist fashions of the 1980s. As two European monetary crises in as many years have demonstrated, the vast pools of money sloshing around the world's financial markets can quickly overwhelm financial authorities. In the US the breakneck pace of financial innovations is making the old measures of money supply moot; the same is happening more slowly in Europe and Japan as they regulate." Russell translation: The world's money supplies are out of the control of the central banks. The central bankers don't really know what the hell is going on.

* *

The latest *Sindlinger* report states that "69.2% of all US households have lower income than six months ago." There's no question about it, the average American is being squeezed in an economic vice. Now, with the new Clinton taxes, many of the so-called "rich" may well join the parade of the squeezed ones. Clinton claims his program will add jobs and "grow the economy." In your dreams, Mr. President.

* *

Headline from a recent A.B.A. Journal (the journal for lawyers): "Shrinking Law Firms: The Painful Popularity of Downsizing." Yes, it's even happening in law firms, layoffs, pink slips and this is unheard of -- asking non-producing partners to look elsewhere.

* *

Got a call from Chris Wood. Chris has been the *Economist's* man in Tokyo for the past three or four years, but he's back in NYC now. He tells me I'm too bullish on China, says southern China is lawless, and that the government will have to crack down soon. Chris is fascinated with my PTI, says when it finally turns down he wants to do a piece on it (of course, we know that the PTI will never turn down, it's heading heaven-ward forever).

* *

STRONG COMPANIES ARE JOINING TREND TO ELIMINATE JOBS

A BASIC STRATEGY EMERGES

As a Weak Economy Bars Rises in Prices, Labor Costs Are Cut to Maintain Profits

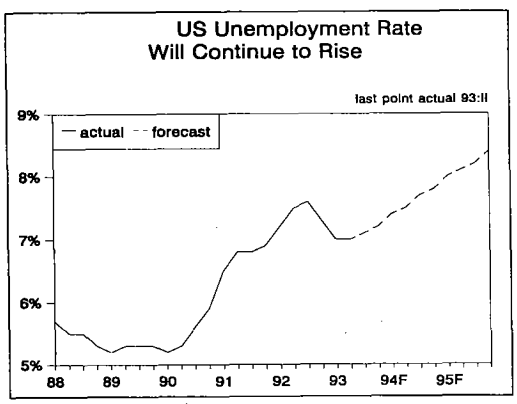
By LOUIS UCHITELLE

It is no longer news that troubled companies are eliminating jobs by the tens of thousands. But the recent an-

I've opined that unemployment will be "the Nightmare of the Nineties." This clip from the *NY Times* notes that even the biggest and strongest companies are joining the "lean and mean" parade, and by lean and mean these companies are saying, "As few employees as possible, expenses as low as possible, and pressure our suppliers for low and still lower prices." This is leading to a global layoff of workers, many that have been with their companies for decades. It also means a very high rate of unemployment for the young.

* *

Economist Gary Shilling [(201) 467-0070] has been very, very good on the economy (he writes periodically for *Forbes).* In Gary's latest report he says "our outlook is gloomy." Gary is looking for US growth of about 2%. Below is his chart and his projection for the US unemployment rate. If Gary's right, watch for the Fed to pump, pump, pump. The two phenomena calculated to panic US politicians are unemployment and recession, and remember -- if unemployment does anything like what Shilling is predicting, the Clinton program will go down as an utter disaster and a fraud. And won't the Republicans rejoice!



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European nations have enjoyed cradle-to-grave welfare for decades. But times are a'changin'. With high unemployment, fat deficits and a deep recession, there's no alternative but to cut back on the entitlements of the welfare state. The fact is that the welfare state just doesn't work. But nobody has let President Clinton in on that little secret. So ironically, as Europe moves away from massive welfare and ever-bigger government, the US moves towards it. Happy endings.

* *

They may have listened to the Pope in Denver, but they're not listening in the country that is home to the Papacy. Remember the old cliché of the Italian mothers with all those many little bambinos pulling at their skirts? Well forget it, Italy now has the lowest birth rate in the world, 1.3 kids per mom, which means that they are not even replacing themselves. Italians, like the Jews (the Jews through inter-marriage) may become an endangered species.

* *

I don't know why, but I've been working harder and getting more letters from subscribers than ever before. I just can't answer all the letters, although rest assured I read them carefully and I like getting them (some are extremely informative). So if you write to me, please don't be offended if I don't answer. I've got to save my energy for Dow Theory Letters, honest.

* *

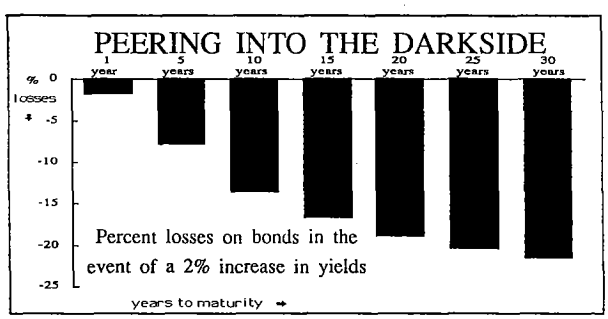
Boy, Malcolm Forbes Jr. is not happy with what our President is doing. This from his latest editorial in *Forbes*: "Passage of the Clinton tax increase represents the high water mark of big government in America. An European/Canadian style nationalized health care system, which Hillary Rodham Clinton unveils next month, will not become law. Another array of tax boosts, integral to Mrs. Clinton's plans, has no chance of clearing Congress. The President's destructive taxes almost guarantee Republican gains in next year's Congressional elections. But the backlash against Clinton's legislative 'success' will be more than a passing phenomenon. It will be part of a parcel of a broader movement in the Western World -- the downsizing of the State." Russell comment: As I see it, Clinton has failed utterly to understand the current world trend. The trend is anti-communist, anti-big government, anti-monster welfare, anti-high taxes. We've elected a President who's thinking and living in a different world, the world of Jack Kennedy and Jimmy Carter.

* *

I ease up on occasion. Three Sundays ago Faye, Mike Susak (option broker with Dean Witter), Mike's wife and I got on our Harley s and rode out to beautiful Lake Hodges about 25 miles from La Jolla (it gets really rustic out there). We rode down by the lake (it's a huge lake, many miles long) and stopped at a funny little inn called the Del Dios Country Market (San Diegans, take note). The place was half full of beer drinkers and chow hounds at noon. A surprisingly talented fellow was singing cowboy songs. I ordered a big cup of chili, price $1.25. Mike ordered a plate consisting of two huge pork chops, a mountain of mashed potatoes and corn, all for $4.95. Faye had a monster hamburger and a stack of french fries for $3.95. Mike finished his plate and ate half of his wife's fish tacos. "It's like living back in the '60s," I said, "I haven't see this much food for these kind of prices in 30 years." Yes, you city readers, it's different way out thar in the country. P.S. Now that I'm on blood thinner, my Doc's orders -- "No more motorcycle riding until you're off blood-thinners."

* *

Every one I know who's ever written a successful market letter has hopes that someone in his family will carry on after the writer has gone to that great chartroom in the sky. It almost never happens. I've seen many sons and daughters try, but invariably they just don't have "it." The letters die out. But there's an exception. It's CV Myers' financial report. CV was a terrific writer and a terrific guy. When he died, his son, John, took over the report, and John's got what the old man had -- talent, and writing ability. Very unusual. At any rate, here's a very important chart from John's latest report. It shows what would happen to various maturities of bonds if rates were to rise 2%. Of course, you and I know that (1) inflation is over -- forever, and (2) rates will never rise again. (*Myers' Finance Review,* PO Box 3082, Spokane, WA 99220).



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Yes, the Golden State of California still has the great weather, but it's also got a host of other things that a lot of people don't want to put up with. So they're doing what Americans have done for centuries -- they're moving, by the van-full. Moving where? To the Rocky Mountain states, and to Colorado Springs, Salt Lake City

and to Boise, Idaho. The word is that houses are going up so fast in Colorado Springs that builders are stealing crews from each other. Me, I guess I'll stay put. I'm too used to living near the ocean. And I swore when I left New York City that I'd never look at snow again.

* *

John Templeton is generally conceded to be one of the world's great investors. He's a perma-bull, always optimistic, and why not (have you ever seen a picture of Templeton when he's not smiling?). Templeton believes that there's a powerful trend towards worldwide progress driven by increased scientific research. He thinks the world's standard of living could double in the next 20 years.

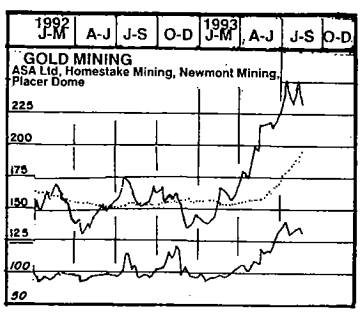
Ah, but John says there is one downside. It's inflation. Templeton says, "Unfortunately, the downside of all this will be the persistence of inflation. I can think of no currency on earth that is gaining in purchasing power, which is because democracies are especially prone to excesses that eventually overheat their economies . . . During the next 10 years global inflation may run from 1% to 15% annually and average about 6% to 7%. It will probably never drop below zero. That means the cost of living may double every 12 years." What's John's solution -- diversify and diversify your investments globally (from an interview in *Bottom Line,* 330 W. 42 St., NYC 10036).

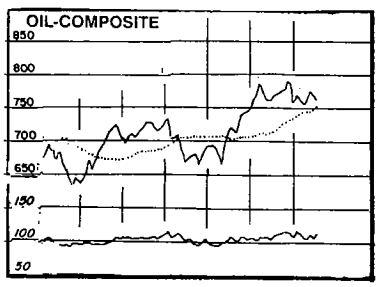
Russell comment: Nobody ever called John Templeton a fool. But the fact, the sad fact, is that NOBODY really knows what's coming up. I've known a few people who've made remarkable predictions, predictions that have come true. Yeah, but these same people have been wrong in other areas. Which is why I've always said, *"There are no geniuses on Wall Street, only geniuses for a while."*

But I do thoroughly agree with Templeton on one item, and I've said this many times -- paper money, ALL paper money, loses value over time. And now, with the rise of democracies across much of the globe, governments will be forced, as never before, to bend to the will of the people. People want jobs, people want better standards of living, and people want it all in their lifetimes. Unfortunately, if the governments can't bring in the money with which to produce the better life via taxes or borrowing -- well, they print it. And that (forgive me, Alan Greenspan) is what we call inflation.

* *

By the way, here are two key charts (courtesy of *Market Charts, Inc.*) that are worth studying. I'm talking Gold and Oil (some call it "black gold"), both highly sensitive to inflation. Looking at these two charts, would you say that they see inflation or deflation in our future?





GOLD: PART ONE, Talking to Myself: Question: Russell, what the devil is going on with gold? It creeps up a few bucks, then it gets smacked. Then it climbs again, and whacko, it gets hit again. I mean, I'm getting gray hair holding my gold position. So what's going on?

Answer: Base building, base building. This is the early part of the bull market, the really early part and the hard part. Each time gold claws its way higher and then gets hit, the metal moves into stronger hands. I've warned about this kind of action, I've predicted this action -- it's typical, it's base building, and we had better get used to it.

Question: But all I read about is "no inflation," and some economists are talking about actual zero inflation or even deflation. What kind of a background is that for gold?

Answer: Remember, I've been saying the "Nightmare of the Nineties" will be unemployment. I'm not just talking about US unemployment, I'm talking about global unemployment. On top of that we're seeing vicious competition coming out of Asia -- S. Korea, China, Hong Kong, Singapore, Malaysia, Taiwan, Vietnam, you name it. These "Tigers" and "Potential Tigers" are low cost producers, and these people will be flooding the world with low-priced but well-made products. And these products aren't going to be pre-World War II Japanese five-and-ten cent toys, they're going to be high-tech, competitive products. Furthermore, the Asians can be innovative and creative. Check the list of the best students in your local high school, and you'll get an idea of what I mean.

On top of that, name a corporation, US or foreign, that is not trimming its labor force, and then trimming its force again and again. I mean, you are going to see MAJOR US and global unemployment. Furthermore, almost every country is being flooded by "foreigners" offering cheap labor and tough competition for jobs. That, too, creates unemployment in the developed nations.

Question: OK, OK, I hear you, Russell, but so what? What are you driving at?

Answer: What's going to be the reaction to this chronic unemployment, all this vicious competition plus continuing low growth and recession throughout the developed world? The reaction, and we're seeing some of it now, will be RISING LIQUIDITY. The pressure on the central banks to monetize, to literally print money, will be huge. Let US unemployment climb back to 8% and there'll be talk of Congress taking over the Fed if "these guys don't ease up further on interest rates and if they don't push up the money supply."

Question: All very interesting, Russell, but what are you getting at? What's your real point?

Answer: Take it easy, I'm getting to that. But now I want to talk about the currencies. They're super-volatile here, they're erratic, they're whipping around like a snake with its tail cut off. First the dollar is weak, then the pound slides, then the Swissie pops up along with the D-mark, and then the yen tops out. It's picnic-time for the FOREX traders and some of the banks, but it's driving your export-dependent businessmen up the wall. And have you looked at the latest US trade balance? It's off into space. At this rate our negative trade-balance could be $120 billion and more over the next 12 months.

You see, in the old days the currencies had an anchor. That anchor was gold. Then the world went off gold, but more recently they had another anchor -- the D-mark. This year the European Rate Mechanism (ERM) fell apart, and now there's no anchor at all. Paper is compared with paper. Currencies are bouncing around like rubber dollies, and devaluations don't even make the news. But there is still real money -- there is an anchor that no central bank or politician wants to talk about -- it's called GOLD. And ultimately, all paper is measured against it.

I think we're moving towards the point where ALL the currencies are going to be losing purchasing power. One by one they'll be devalued in the vicious competition to produce relatively "cheap" exports plus the desire of nations to re-inflate their sluggish or recession-logged economies.

Question: Russell, you're saying that people will turn to gold because they won't know what currency to be in?

Answer: Exactly. That plus the fact that populations will increasingly distrust their own currencies. Don't forget, China and India (with their multi-billion populations) have a long history of accumulating gold. To the Chinese and the Indians and most Asians for that matter, gold is real wealth, wealth that the

government can't print away or inflate away. As these nations learn to produce and as they get wealthy, they're going to hoard gold. It's happening now.

Furthermore, with the world movement towards democracy, you're going to see politicians being pressured to bend increasingly towards the will of the people. In the August 26 *WSJ*, a front page story tells how the Chinese government is "losing control" of the situation as the population goes wild over free enterprise, speculation and new businesses. The money supply in China exploded up 46% this year over last. Every Chinese wants gold, a car, a Western suit and the good things of life. And it's even beginning to happen in Russia. It's a world trend.

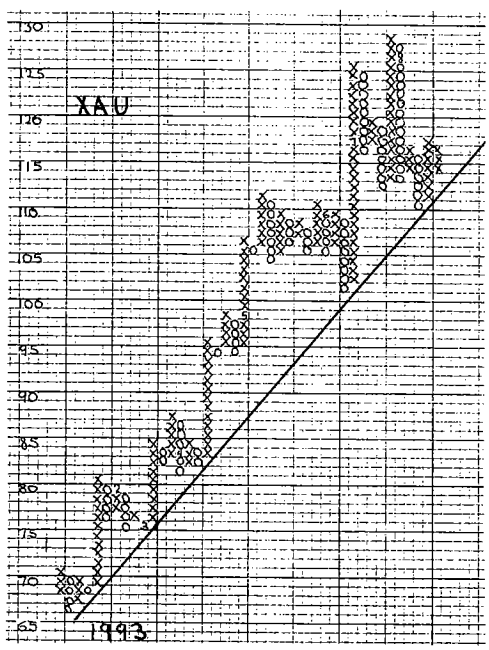
At the same time liquidity is rising, and sloshing into stock and bond markets around the world. While this is going on -- gold is base building, base building, moving into stronger and stronger hands. Informed investors see the picture, and they're accumulating the yellow metal and the gold shares at prices that will look like bargains a few years from now.

PART TWO: I don't know how much information, how many reports on gold and silver, I read each week. But believe me, they would fill a deep basket each week. Yep, I know that gold demand is now outstripping production. Yes, I know that the Chinese are now the world's largest gold buyers. I know that gold demand this year is up 24% over last year. I know that the growth of mine production, worldwide, is now slowing down. I know that the commercials have recently added 23,000 new gold contracts to their positions while cutting back by 37,400 contracts on their short positions (which is bullish).

But listen, all the news and theories and inside tips about gold aren't worth one significant chart. Here's a chart I keep of the Philadelphia XAU Silver/Gold Average. It's a point & figure chart with each box worth one point. The chart shows areas of accumulation, then a breakdown. Then a new higher area of accumulation. Then another "gut check" breakdown. That's been the pattern so far.

There's strong support at 110 on the XAU. A major breakout would entail a new high at 130. In the meantime, XAU is backing and filling, -- and driving gold holders up the proverbial wall. But I see the action as base building, and more base building.

People ask me, "What are the strongest high-quality gold stocks?" and, "Russell, if you had to pick one gold stock which one would you pick?" Ah, they give me all the easy questions, but here goes.



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If I had to pick only four gold equities I'd pick Placer Dome, American Barrick, Pegasus and Echo Bay Mines.

Now you want me to pick only one gold stock? Placer Dome would be my choice. Not only is PDG acting well technically, it's got the goods behind it. Here's what the latest issue of the "Silver and Gold Report" [(407)684-8100] says about PDG: *"Placer Dome will soon become the largest gold and silver producer in the world. With the addition of its two pipeline projects in Nevada and Placer's Las Christina mining project in Venezuela, the company should increase its gold production from last year's 1.8 to 2 million-plus ounces a year for the next decade. Meanwhile its silver production should leap from 13 million ounces to 20 million ounces per year . . .The positive future prospects are reinforced by Placer's strong balance sheet. The firm has adequate cash to grow, excellent management and some of the best potential properties around the world."*

Russell comment: What more could you ask for? By the way, the *Silver and Gold Report* is published by *Weiss Research* out of W. Palm Beach, Florida. The Weiss company was started way back in the late '50s by my old buddy, Irving Weiss (it's now run by his capable son, Martin). Irv (now in his 80s) made a killing on the short side of the market in 1929. Irv and I used to have long talks during the late '50s and early '60s. Irv taught me a lot about markets, and he was one of the very first to realize the importance of the growing government debt, and of money market funds and bond funds. Irv, take care of yourself and keep eating those fruits and raw veggies and nuts (he's lived on them for as long as I've known him).

Let's talk a bit more about the gold action. The recent 22 dollar gold break served one purpose. It cooled the ardor of the public and newcomers for gold. Remember, everybody was saying, "Hey, it's a new gold market. Buy, buy, get into it, gold in the 500s by 1994." Then the big gold break of 22 bucks cooled off the bulls. Now they're saying, "Well, maybe I'll come back in if gold backs off to around 350 to 360." Or, "It's the same old story, a pop in gold and then a collapse. Who needs it, I've had it with gold."

In other words, gold, early in its bull market, did what it was supposed to do, namely, knock out these who were looking for a quick profit. I said it before, and I'll say it again -- the hardest thing in investing is to ride all the way through a bull market -- from somewhere near the beginning to somewhere near the final top. It's hard, it's mighty hard. That bull wants you off his back, and he likes to travel light. Put too big a load of optimists on his back, and he can't climb those golden stairs.

LATE NOTES: I feel good, will start exercising again in a day or two, so please stop worrying about me, you guys and ladies. Many thanks for all those get well cards -- they're VERY much appreciated.

Bond market has been in a near-parabolic rise. Last week I received technical "halt" signals on the bonds. When an item goes parabolic and it feels like a "sure thing" -- then it's "be careful time." Remember, I predicted that 1993 would be "the year of surprises," and 1993 isn't over yet . . . Don't miss "The New Investors" article in the Aug. 30 *Barron's*. *Barron's* notes, as I have, that the markets are now in weak hands. Households now own 45.8% of the market, private pension funds own another 22% and mutual funds (again the public) own 10.3% of the market. This would be a hellish time for a bear market to begin, wouldn't it? Russell adage -- "Bear markets have a nasty habit of starting at a time when the country is least ready for them."

The speculator: Last time I bought the Dec. 400 gold options for $1, sold 'em for 17.50. I'll try again. This time I bought the April 420 gold options, paid 3.30 for them ($330 for an option on 100 ounces of gold at 420). Russell, you lug, odds are you won't be lucky twice in a row -- but I like gold here.